

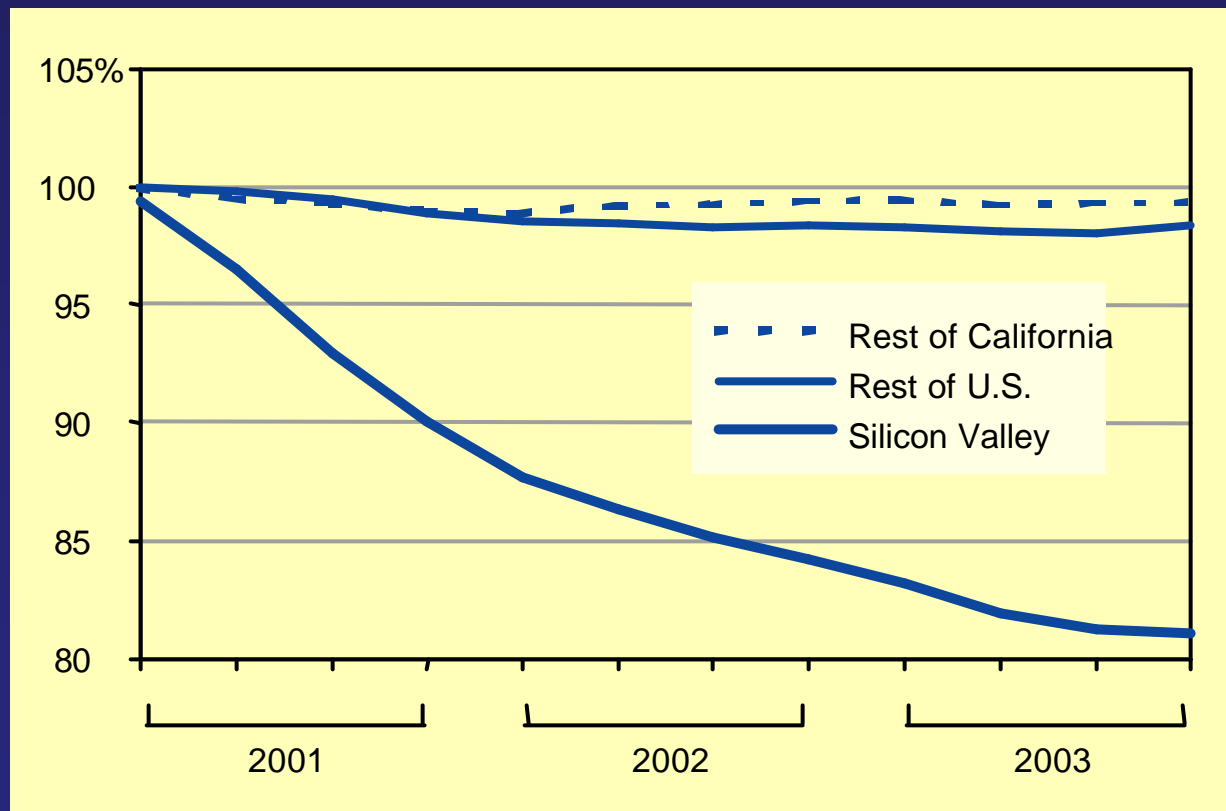
California's Economic and Budget Situation



Legislative Analyst's Office

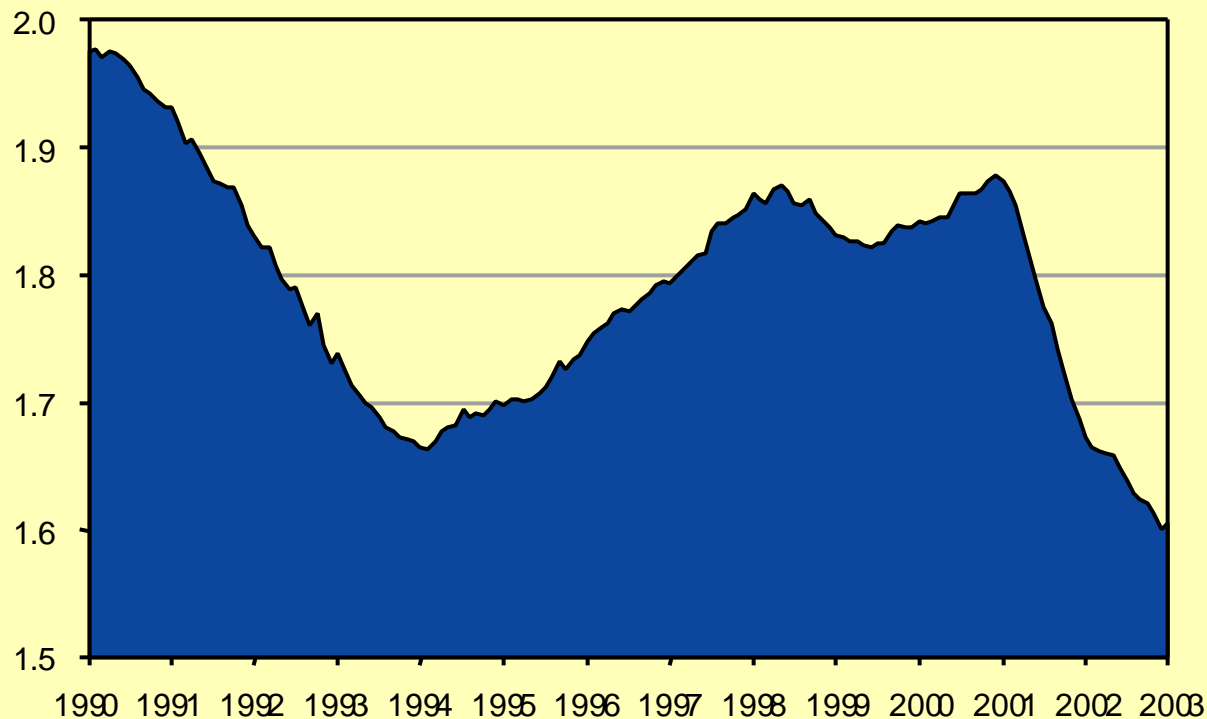
California's Recent Employment Woes Concentrated in High Paying Region

Wage and Salary Jobs, Percent of Prerecession Peak



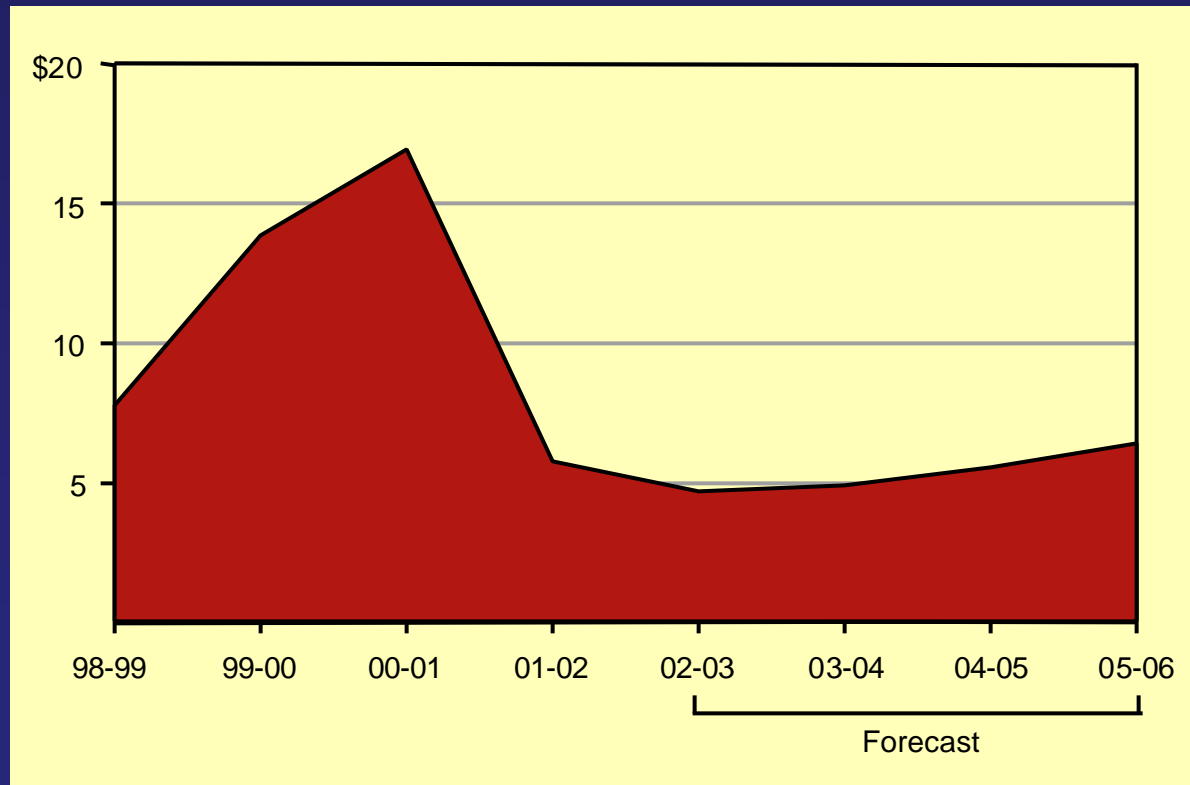
...And in High Paying Sectors...

Manufacturing Jobs, in Millions



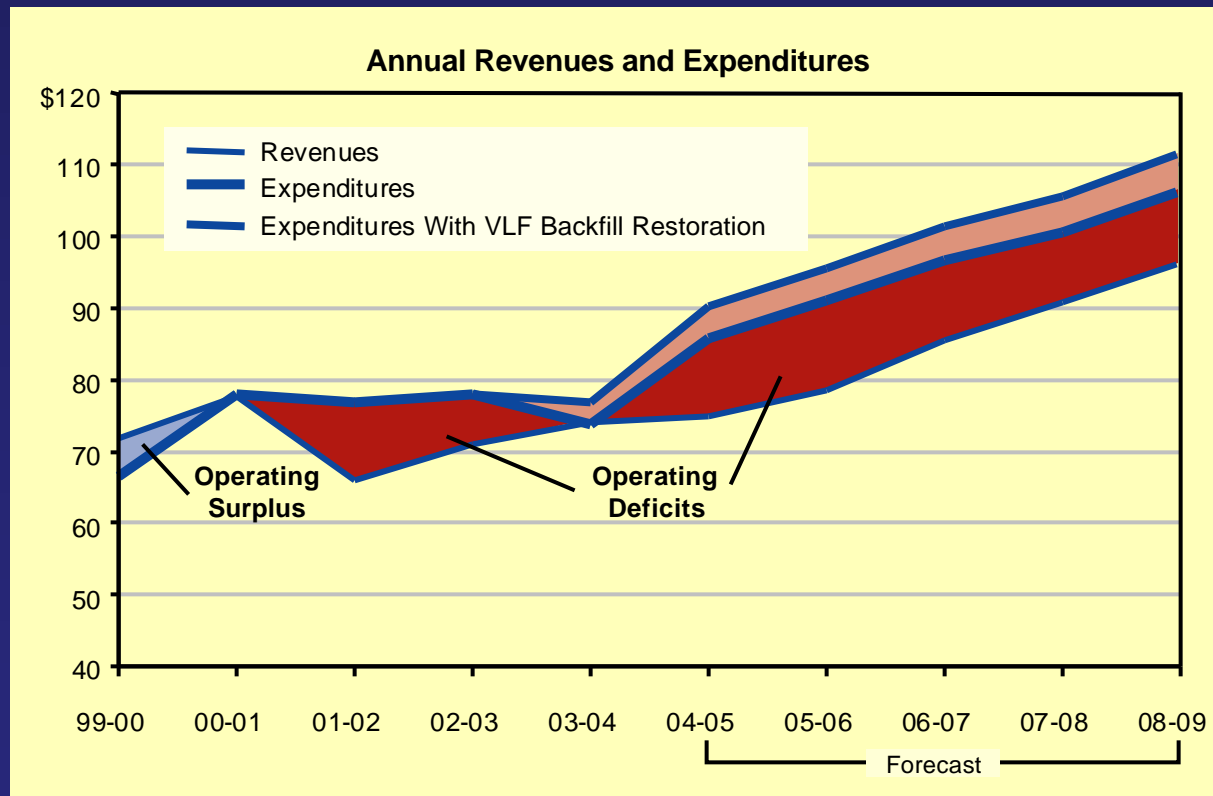
Revenues From Capital Gains and Stock Options Fell Sharply...

(In Billions)



...And The State Has Yet To Resolve Resulting Imbalance

General Fund (In Billions)



2004-05 Shortfall Facing California

⚠ Before Proposition 57—\$16 Billion

- Assumed sale of \$8.6 billion statutory bond with debt service costs of \$2.5 billion
- Absent this bond, shortfall would have been \$22 billion

⚠ After Proposition 57—\$12 Billion

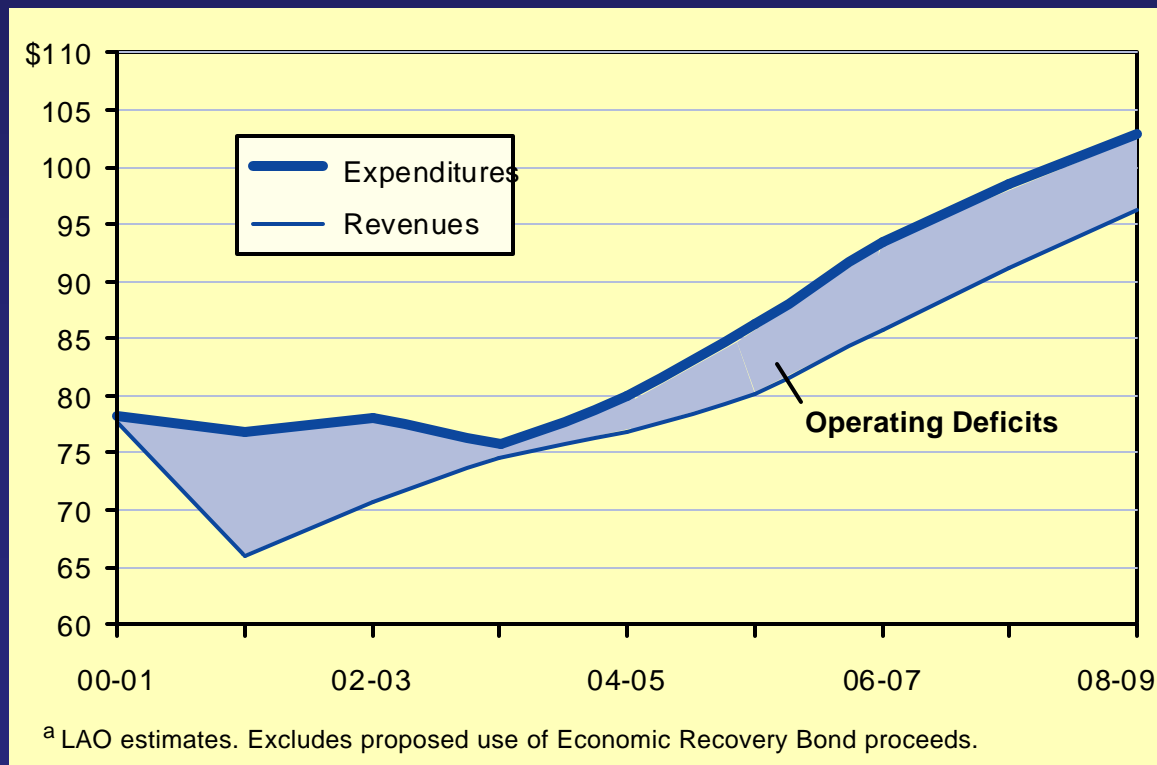
- New bond contributes \$4 billion to solution
 - ▢ \$2.7 billion from larger bond proceeds
 - ▢ \$1.3 billion from lower debt-service

Allocation of May Revision Solutions

- ③ **Program Reductions—\$5.4 Billion**
- ③ **Loans/Borrowing—\$3.8 Billion**
- ③ **Local Government-Related—\$1.4 Billion**
- ③ **Transfers/Shifts/Other—\$2.7 Billion**

Large Operating Shortfalls to Persist Under May Revision^a

General Fund
(In Billions)



Why Structural Shortfall Reemerges in 2005-06

⊗ Expiration of Temporary Savings After 2004-05

- Economic recovery bonds
- Pension Bonds
- Proposition 42
- Local government property tax shift (expires in 2006-07)

⊗ Other Obligations in 2005-06 And Thereafter

- Transportation loan repayments
- Local mandates
- Proposition 98 settle-up

Main Differences Between Legislature and Governor

Social Services

- CalWORKs and SSI/SSP grant levels
- Wages for IHSS workers

Higher Education

- Funding for enrollment
- Fees

Employee Compensation

Local Government

Pension Bonds